

Understanding Local Government Finances

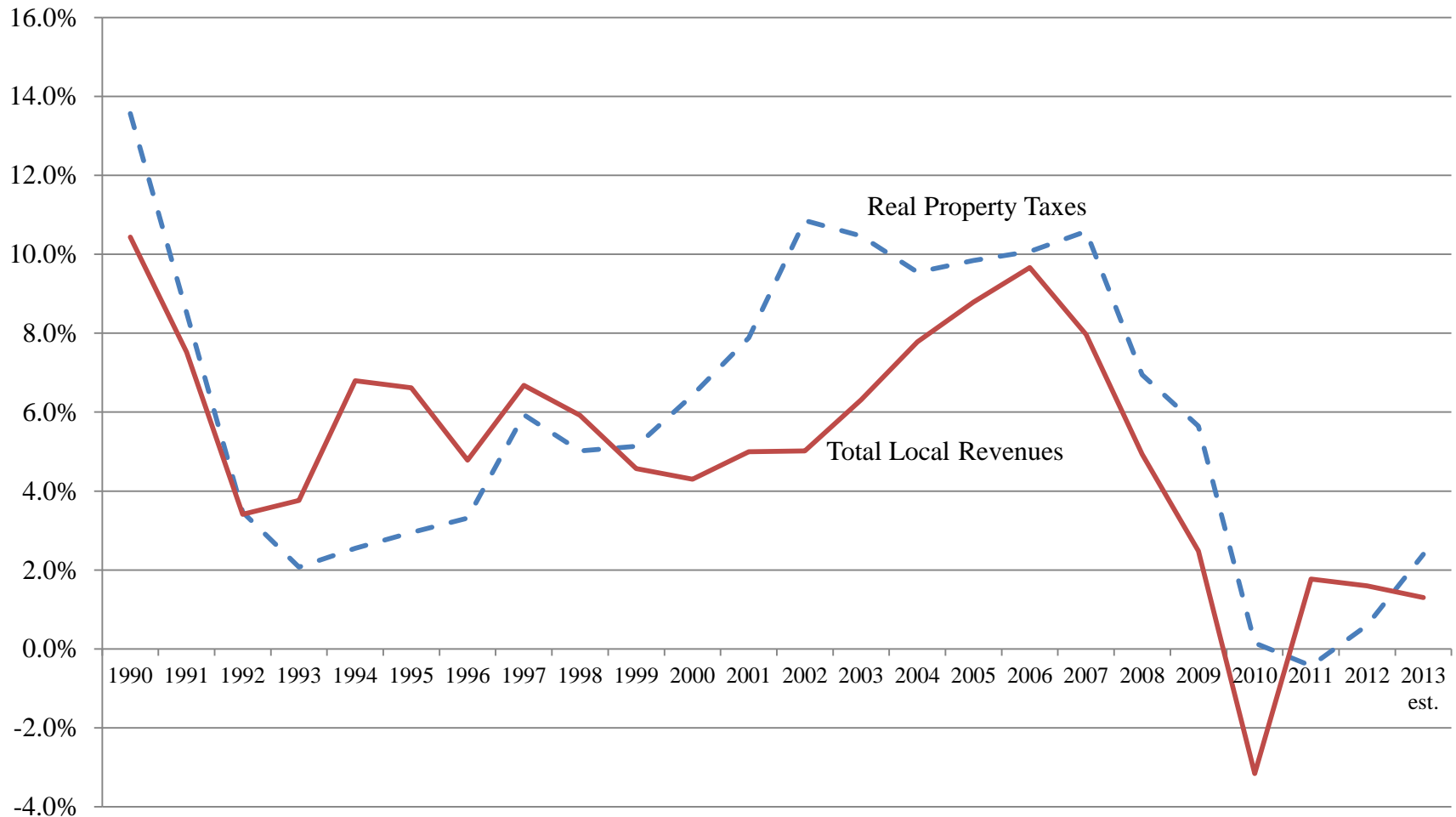
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Virginia Association of Counties

April 2, 2013

Local Revenues Continue to Suffer

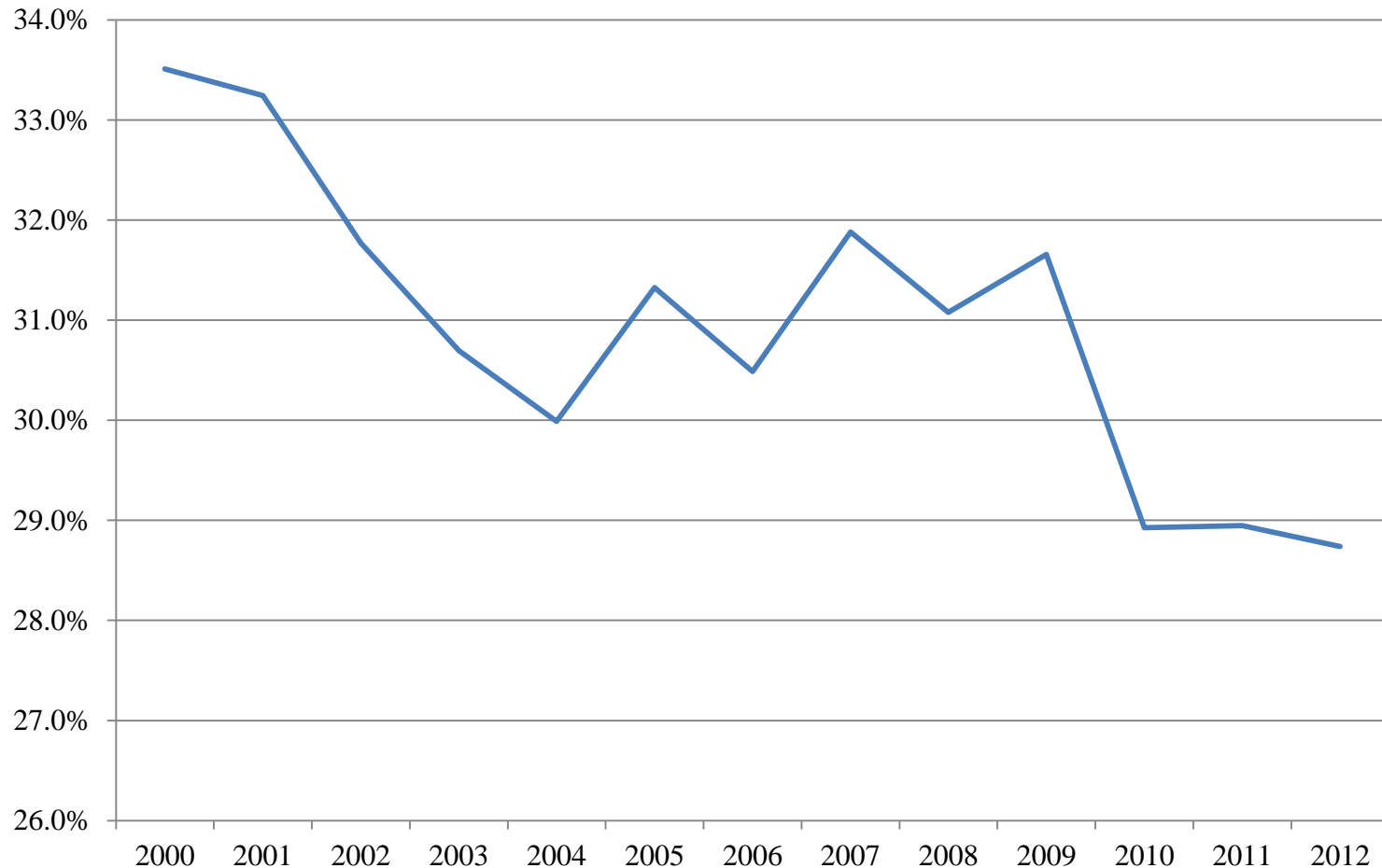
Local Revenue Growth Trends



Source: 1990-2012, Auditor of Public Accounts
FY 13 estimates from VML/VACO 2012 Fiscal Survey

At Same Time State Aid is Falling For Localities

State Categorical Aid As % of Local Expenditures



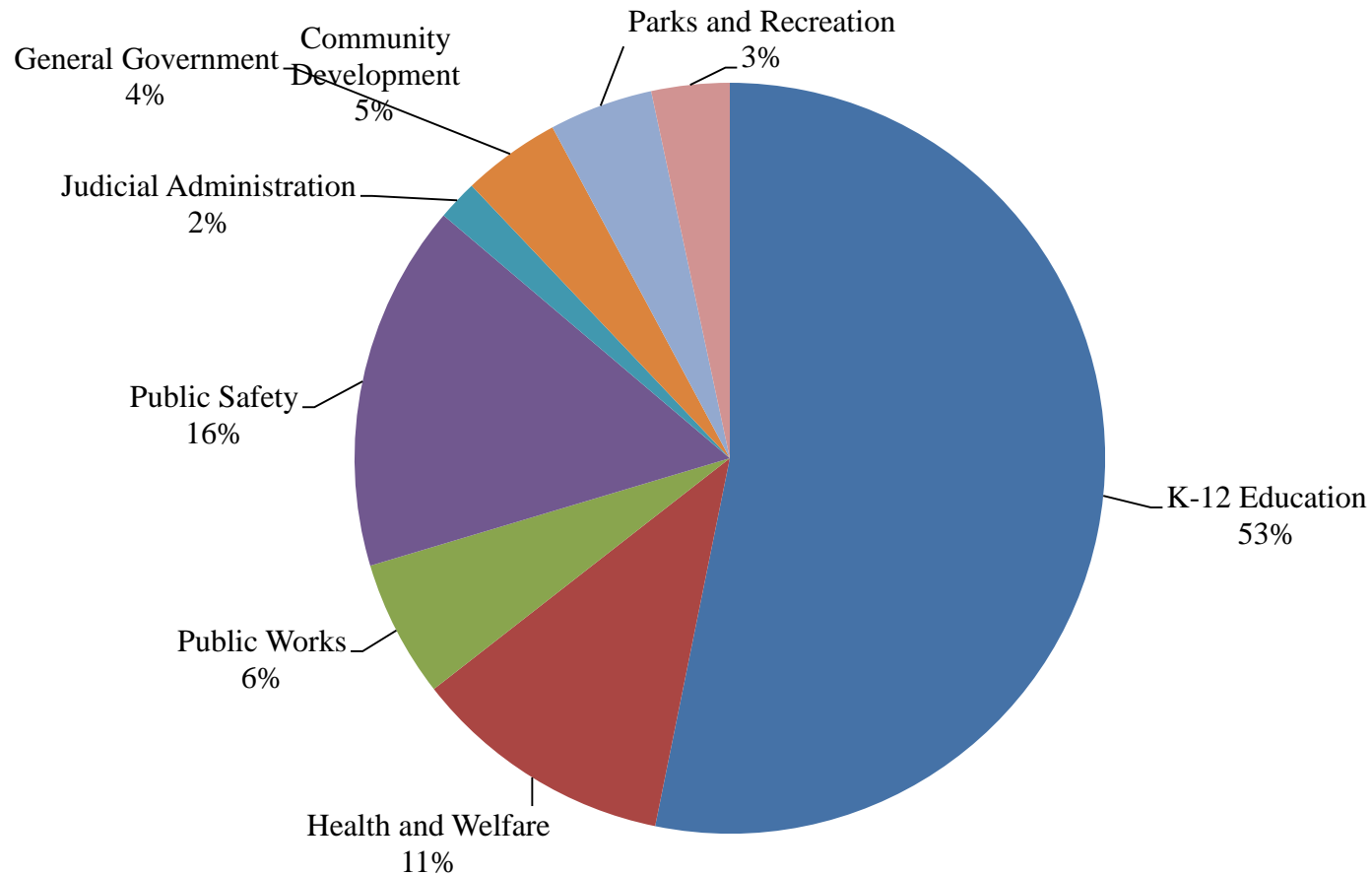
Source: APA Comparative Reports on Local Revenues and Expenditures, Fiscal Years 2000-2012

Headwinds Remain for Increasing State Aid for Locally-Administered Programs

- Continuing slow GF revenue growth.
- Future Rainy Day Fund deposits (est. \$130 mil in FY 15 and \$240 mil. in FY 16).
- Medicaid program costs continuing to grow faster than GF revenue growth.
- Increasing VRS contribution rates.
- More debt service.
- Efforts to use general funds for transportation.

***FACT: Most Local Government Expenditures are Mandated or Regulated by the State**

FY 2012 Local Government Operating Expenditures = \$25.8 bil.



Many Localities Feel They Will Be Less Able to Meet Their Future Financial Needs

Meet Financial Needs?	<u>Better</u>	<u>Same</u>	<u>Less Able</u>
Localities Responding (100)			
FY 2013 Compared to FY 2012	17%	54%	29%
FY 2014 Compared to FY 2013	11%	48%	41%
Cities (29)			
FY 2013 Compared to FY 2012	31%	41%	28%
FY 2014 Compared to FY 2013	24%	34%	41%
Counties (71)			
FY 2013 Compared to FY 2012	11%	59%	30%
FY 2014 Compared to FY 2013	6%	53%	41%

Falling Revenues and Reduced State Support Require Tough Choices for Local Budgets

In Top 3 FY 12 Budget Balancing Actions

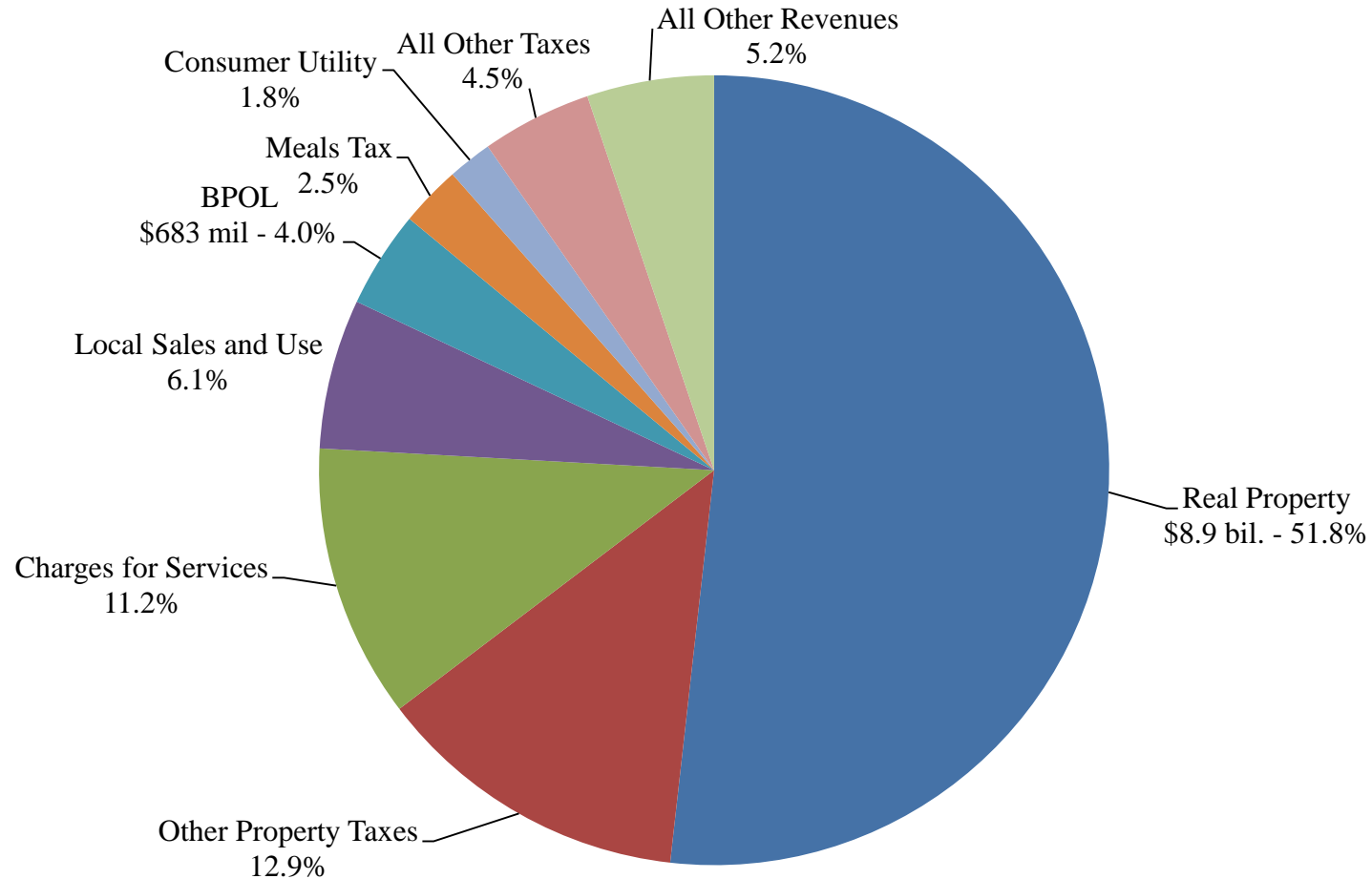
	<u>FY 12</u> <u>83 Localities Responding</u>	<u>FY 13</u> <u>65 Localities Responding</u>
Delay or cancel capital outlay/infrastructure/equipment	52	25
Draw down reserves	29	22
Salary/Hiring Freeze	33	17
Increase tax rates/fees	33	28 *
Eliminate vacant positions or reduce staff	20	14
Targeted cuts in other services and programs	19	11
Reducing staff health care benefits	11	3
Targeted cuts in public education	10	5
Reduced contributions to civic/cultural	6	
Renegotiate debt	5	7
Replacing local general funds with special funds	4	
Across the board service cuts	3	4
Early retirement incentives	2	3
Targeted cuts in public safety services	2	
Other	4	9

* 18 localities increased RE tax rates at greater than equalization

Source: Results from VML/VACO 2011 and 2012 fiscal surveys

***FACT: Important to Keep a Mix of Local Revenues**

FY 2012 Local Revenue Sources = \$17.2 bil



Note: "All Other Taxes" includes, transient occupancy, MV license, recordation, bank stock, tobacco, admission, severance, franchise license, other

BPOL and M&T Tax Revenue

- All 39 cities, 55 of 95 counties, and all towns levy a BPOL tax or fee in Virginia. In total, localities generated \$683 million from BPOL taxes or 4.0 percent of their locally-generated revenue in fiscal year 2012.
- There is a wide range in reliance on BPOL revenues by localities -- up to 10.7 percent in cities and 6.2 percent in counties and 18 percent in large towns. Towns have the highest average reliance at 10.2%, cities at 5.2%, and counties at 3.2%.
- Generally, the larger, more populous areas of the state rely on the BPOL tax to a greater extent than smaller, rural areas. This is primarily due to their greater concentration of businesses. Hampton Roads, Northern Virginia, and the Richmond region all rely on BPOL taxes for more than four percent of their local revenue.
- 36 of 39 cities, 90 of 95 counties, and 23 of 36 largest towns levy a M&T tax in Virginia. In total, localities generated \$213.7 million from M&T taxes or 1.3 percent of their locally-generated revenue for fiscal year 2012.
- There is a wide range in reliance on M&T revenues by localities -- up to 32 percent in cities, 27 percent in counties, and 36 percent in towns. Cities and towns have the highest average reliance at 1.6% and counties at 1.0%
- M&T tax revenues as a percent of total local revenues are more concentrated outside the “golden crescent” of Northern Virginia, Hampton Roads, and Richmond regions. This is primarily due to the greater reliance on manufacturing facilities in rural parts of the state for their local economies. However, it should be noted that Hampton Roads and Richmond PDC’s have the two largest absolute dollar amounts of M&T revenues.
- On average, **Counties** would have to raise their real estate tax rates 4.8 cents to equal an equivalent amount of BPOL revenue and 1.8 cents to equal an equivalent amount of M&T revenue; **Cities** 11.3 cents for BPOL and 3.3 cents for M&T revenue; **Towns** 7.2 cents for BPOL and 1.2 cents for M&T revenue.

There is Wide Variation in Local Reliance on BPOL and M&T Taxes

FY 2012 Local BPOL and M&T Revenue Reliance (\$ Mil.)							
# of Localities			Total Local	BPOL %	BPOL % of	M&T %	M&T % of
<u>Levying Tax</u>	<u>BPOL</u>	<u>M&T</u>	<u>Revenue</u>	<u>FY 12 Rev.</u>	<u>Local Revenue</u>	<u>FY 12 Rev.</u>	<u>Local Revenue</u>
39 BPOL Cities; 36 M&T Cities	\$ 287.8	\$ 87.2	\$ 5,497.0	5.2%	1.9% to 10.7%	1.6%	0.0% to 31.7%
53 BPOL Counties; 90 M&T Counties	\$ 367.3	\$ 112.8	\$ 11,450.7	3.2%	0.0% to 6.2%	1.0%	0.0% to 27.4%
36 BPOL Towns; 23 M&T Towns	<u>\$ 27.9</u>	<u>\$ 4.5</u>	<u>\$ 274.5</u>	<u>10.2%</u>	0.3% to 18.3%	<u>1.6%</u>	0.0% to 35.9%
Grand Total	\$ 683.1	\$ 204.6	\$ 17,222.2	4.0%		1.2%	
Note: Out of 39 cities, 95 counties and 36 largest towns in Virginia							
Source: FY 2012 Auditor of Public Accounts Comparative Report of Revenues and Expenditures							

BPOL Administration

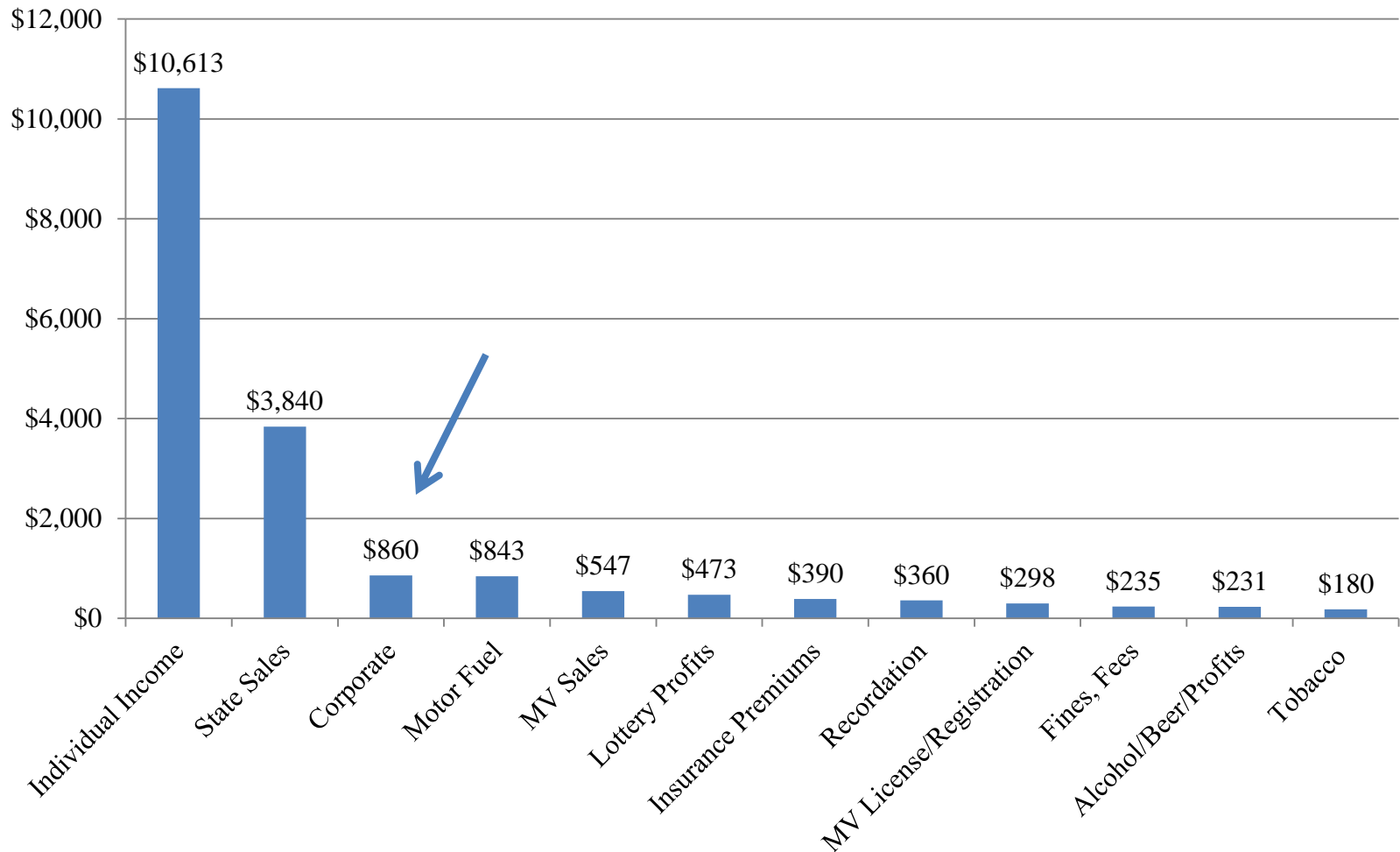
- Localities authorized to impose BPOL unless they already levy a merchants capital tax.
- County BPOL does not apply in incorporated towns unless town grants the county authority.
- Each business classification has a specific maximum tax rate applied to gross receipts.
- Revised guidelines in 1997 and 2000 made due dates, penalties, interest, appeals, and definitions of situs more uniform.
- In 2011, General Assembly allowed localities the option of imposing tax on either gross receipts or Virginia taxable income (§ 58.1-3702) and allowed localities to exempt new business from the tax for two years and allowed exemptions for unprofitable businesses (§ 58.1-3703).
- Localities can also impose a fee in lieu of tax up to a minimum threshold of gross receipts.
- JLARC directed in appropriation act to study (with the help of localities) the impact of changing basis of BPOL from gross receipts to net income.

M&T Administration

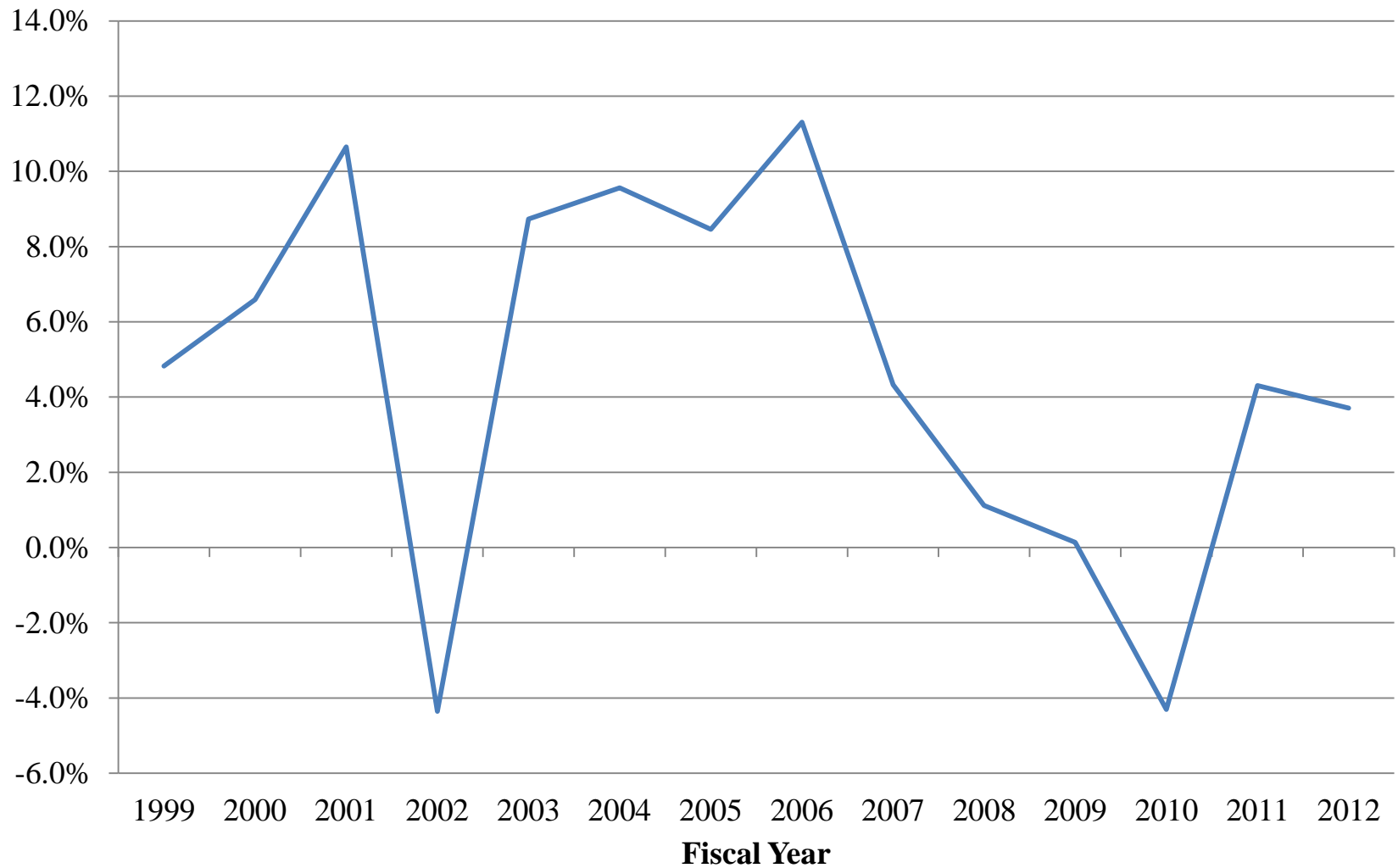
- Under state constitution, all property is taxable.
- The tax rate on machinery and tools is lower than the rate imposed on other classes of tangible personal property.
- Idle machinery is classified as intangible property and not subject to local taxation.
- VML/VACO supported 2012 legislation that passed Senate providing a state grant for new equipment.

BPOL and M&T Revenues Similar in Size to State Corporate Income Tax

FY 2012 Major State Tax Sources (\$ Mil.)



BPOL Revenue Growth Also Sensitive to the Economy (Annual % Growth)



Virginia Ranks High in Overall Business Climate

- Virginia ranks highly in independent evaluations of state business climates.
 - Tax policy is only one of many factors.
- Of the individual factors used in judging business climate, cost-of-living and labor costs -- not tax policy, appear to be the worst rated factors in achieving business growth in Virginia.
- Virginia ranks better in tax climate than most other nearby states.
- Local BPOL and M&T taxes do not materially affect Virginia's business tax climate according to rankings.

Sources:

<http://taxfoundation.org/article/2013-state-business-tax-climate-index>

<http://www.forbes.com/best-states-for-business/>

<http://www.cnbc.com/id/47818860>

http://jobs-ohio.com/images/Competitiveness_state_and_local_business_taxes.pdf

Overall Business Climate Rankings

	Forbes (2012)	CNBC (2012)	Chief Executive	Area Development
Virginia	2	3	7	9
North Carolina	4	4	2	8
Maryland	16	31	37	not in top 10
Tennessee	24	16	4	1
Kentucky	28	36	17	not in top 10
West Virginia	45	48	42	not in top 10
Georgia	8	9	5	5
South Carolina	22	32	8	3

Business Tax Climate Rankings

	2013 Tax Foundation <i>Business Tax Climate</i> <i>Rankings</i>	Ernst & Young <i>Effective Tax Rate on</i> <i>New Investment</i>
Virginia	27	6
Maryland	41	12
North Carolina	44	34
Tennessee	15	45
Kentucky	24	15
West Virginia	23	42
Georgia	34	16
South Carolina	36	37

Virginia Compared to Other States

	<u>State Rank</u>
Per capita personal income	8
State and local <i>revenue</i> as a percentage of personal income	49
State and local <i>taxes</i> as a percentage of personal income	43
<i>Per capita</i> state and local taxes	22
Individual income taxes as a percentage of state and local tax revenue	7
State motor fuel tax rate rank	37